

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-WS

IN RE:)
)
Application of Carolina Water Service,)
Inc. for adjustment of rates and charges)
for the provision of water and)
sewer service.)
_____)

PRE-FILED DIRECT TESTIMONY
OF CONVERSE A. CHELLIS, III

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 A. My name is Converse A. Chellis, III. I am a Certified Public Accountant (“CPA”)
3 and a principal in and the Director of Litigation Services and Property Tax Services for
4 Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah
5 Island, and Summerville, South Carolina. My office is located at 133 East First North Street,
6 Suite 9, Summerville, South Carolina 29483.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a
9 bachelor’s degree in business administration. I also have completed some graduate courses
10 in accounting at the University of Georgia. In addition, I have had a minimum of forty (40)
11 hours of continuing professional education (“CPE”) each year since 1969, for a total of at
12 least 1,440 total CPE hours.

13 **Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL**
14 **EXPERIENCE PRIOR TO YOUR CURRENT POSITION.**

1 A. Upon graduation from The Citadel in 1966, I served in the United States Air Force
2 and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross (now
3 Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in 1972, and
4 have been a name partner and managing partner in several accounting firms until 1998. In
5 1999, I merged my firm with Gamble Givens & Moody, where I am a principal and Director
6 of Litigation Services.

7 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

8 A. Yes. I am a member of the American Institute of Certified Public Accountants
9 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
10 committee, and in 1985 I served on the AICPA council.

11 I am also a member of the South Carolina Association of Certified Public
12 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter in
13 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
14 SCACPA, having previously served on the state level as Vice-President,
15 Secretary/Treasurer, and Director. I have also been Chairman of the SCACPA's Committee
16 on Continuing Professional Education, Chairman and trustee for the SCACPA's educational
17 fund, and Chairman of the SCACPA's Committee on Cooperation with Governmental
18 Agencies.

19 From 1986-1994, I was a member of the State Board of Accountancy, where I served
20 as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

21 From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also a
22 past member of the American Society of Appraisers, and a current member of the American
23 College of Forensic Examiners. In addition, I am a past associate in the Municipal Finance

1 Officers Association, and I have held various offices in the National Association of
2 Accountants. I am also active in the peer review process, which involves examination of the
3 work of other accountants and accounting firms to assure that quality controls are being
4 applied in conformance with the Quality Control Standards adopted by the AICPA.

5 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER ACCOUNTANTS**
6 **OR AUDITORS?**

7 A. Yes. I have been a speaker and an instructor for the accounting profession on a
8 number of accounting topics, including generally accepted accounting principles (“GAAP”)
9 related topics.

10 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
11 **CAROLINA COURT?**

12 A. Yes. I have been qualified as an expert witness in both the circuit and family courts
13 of South Carolina. I have also previously testified before this Commission offering opinions
14 on regulatory accounting issues.

15 **Q. WHY ARE YOU OFFERING TESTIMONY IN THIS CASE?**

16 A. I have been asked by Carolina Water Service, Inc., or CWS, to review its application
17 to the Commission in this docket and provide an analysis of how each portion of the
18 revenues received from customers is spent.

19 **Q. WHAT KEY DOCUMENTS OR MATERIALS DID YOU CONSIDER AND WHAT**
20 **RESEARCH DID YOU UNDERTAKE IN REACHING YOUR OPINIONS?**

21 A. I have reviewed the application for the proposed rates and the pre-filed direct
22 testimony of the Company employee witnesses in this matter. I have also reviewed materials
23 prepared by the Company’s Director of Regulatory Accounting, Steven M. Lubertozi, CPA,

1 providing an analysis of the Company's expenses. In addition, I have analyzed information
2 from CWS's last rate case and various regulatory accounting literature.

3 **Q. WHY DID YOU ANALYZE THE RELATIONSHIP BETWEEN THESE EXPENSES**
4 **AND THE RATES?**

5 A. In my review of the last rate case, the Office of Regulatory Staff ("ORS") informed
6 the Commission that it desired to conduct a management audit of CWS and its affiliated
7 companies to ensure that the customers are getting "a dollar's worth of service for every
8 dollar they pay." Accordingly, in order to fully explain the disposition of rate revenue
9 realized by CWS, I have examined the revenues and expenses of the Company during the
10 test year and their relative proportionate amounts. In order to easily demonstrate how a
11 customer's payment is spent, I have utilized the example of a customer's dollar and where
12 each portion of that dollar goes to pay for CWS services.

13 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH FURTHER EXPLAINS THIS**
14 **ANALYSIS?**

15 A. Yes, I have. It is attached to my testimony as Exhibit A.

16 **Q. WHAT DOES YOUR ANALYSIS OF THE REVENUES AND EXPENSES SHOW?**

17 A. It is my understanding that CWS is currently charging rates under bond pursuant to
18 §58-5-240(D) (Supp.2004) and as approved by the Commission in Order No. 2005-465. As
19 demonstrated by the Company's application, CWS received in the test year \$6,735,045 in
20 annual revenues. This includes revenue from the water and sewer operations in South
21 Carolina as well as miscellaneous revenues and takes into account \$57,177 in uncollectible
22 accounts. CWS also incurred \$6,375,933 in expenses during the test year. This amount
23 includes \$2,961,476 in Operations and Maintenance Expenses, \$962,268 in General

1 Expenses, \$1,876,875 in expenses for depreciation and taxes, and \$575,314 in interest
2 expenses. Of course, this does not reflect the Company's pro forma expense adjustments.

3 For every dollar spent by CWS consumers in the test year, fifty-eight cents (58¢)
4 were used to defray expenses to simply operate the plant and business. Seven cents (7¢) out
5 of every dollar were used to pay for electricity to pump water, treat wastewater and provide
6 other necessary power. As we have all experienced, the cost of purchased power has
7 increased significantly and, unfortunately, is an increased expense borne by all businesses
8 including water and sewer providers. Two cents (2¢) were used to pay for insurance and the
9 remaining forty nine cents (49¢) were used to pay for Operations and Maintenance Expenses
10 ("O&M Expenses") and General Expenses.

11 **Q. WHAT TYPES OF EXPENSES ARE INCLUDED IN O&M EXPENSES?**

12 A. O&M Expenses comprise the largest portion of the cost to customers because these
13 are expenses CWS must incur to provide the end product to the customer and to properly
14 operate its business. For certain subdivisions, CWS purchases water from bulk water
15 providers and sewer treatment services from bulk sewer treatment providers. This expense
16 is passed on directly to customers and the Company does not profit off of these expenses.
17 For all systems operated by CWS, the Company incurs expenses to insure the customers are
18 receiving quality service such as maintenance, repair and testing of the system. As testified
19 to by Mr. Haas, these operations include periodic water main flushing and cleaning of sewer
20 mains performed on a routine basis in order to minimize the occurrence of disruptions in
21 service and to ensure that customers receive the best service possible. Additionally, CWS is
22 required to purchase chemicals in order to properly treat the water and wastewater, to meet
23 DHEC and other regulatory requirements, and to provide its customers with safe and

adequate water and sewer treatment. The remaining portion of O&M expenses is used for salary expenses for CWS employees, transportation costs and various outside services where the Company is required to employ outside contractors to properly maintain and service its existing plant.

Q. WHAT TYPES OF EXPENSES ARE INCLUDED IN THE CATEGORY OF GENERAL EXPENSES?

A. In addition to O&M expenses, the Company incurs General Expenses which are a normal cost of doing business for any company of this size. This includes costs for salaries and wages of officers, pensions, office supplies, rent, insurance, and regulatory commission expenses.

Q. ARE THERE ANY ADDITIONAL EXPENSES BORNE BY THE COMPANIES?

A. Yes. Of the remaining portion of each dollar spent by customers, twenty-two cents (22¢) were spent on taxes. This, of course, is an unavoidable expense that CWS must incur. Additionally, six cents (6¢) of each customer's dollar were used for depreciation expenses and proper amortization of other expenses. Of the remaining amount, nine (9¢) cents were used to pay for interest on the company's debt and loans for construction of new plant and facilities.

Q. AFTER ACCOUNTING FOR ALL OF THE NECESSARY EXPENDITURES, WHAT PORTION OF EACH DOLLAR TAKEN IN IS RETAINED BY THE COMPANY?

A. Very little. In fact, only five cents (5¢) out of each dollar taken in were realized as profits during the test year. Further, CWS does not use this money to pay dividends to its investors or otherwise transfer the profits to its parent or affiliated corporations. CWS

1 invests its profits back into its corporation to insure that it will remain a financially viable
2 system and that it will continue to provide adequate and proper service to its customers.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A. Yes it does.

